

 **CANADA**

Manufacturers used the surge in sales to reduce their inventories

HIGHLIGHTS

- Manufacturing sales rose 1.2% in December, a gain identical to November's.
- Nearly 70% of the sectors showed growth in December. For example, there were major increases in the motor vehicle and wood product industries.
- In contrast, sales of petroleum and coal products plunged due to the drop in energy prices.
- Aside from Alberta, Manitoba and Prince Edward Island, manufacturing sales increased in all provinces. Quebec is up 1.7%, while Ontario saw an increase of 0.7%.
- In real terms, Canadian manufacturers' sales were up 1.3% in December.

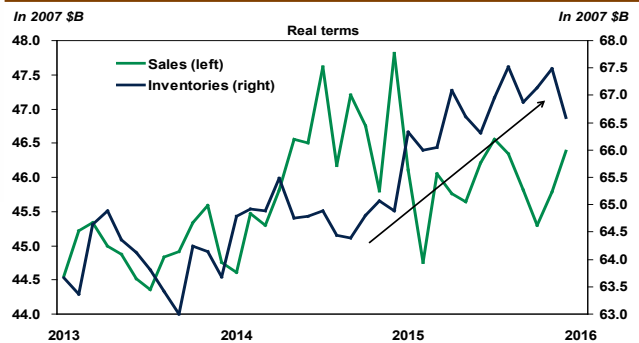
COMMENTS

Overall, 2015 was a fairly disappointing year for Canadian manufacturers. The few months that saw gains were not enough to make up the ground lost in the second half of 2014. The total volume of manufacturing sales for 2015 is therefore down 0.9% from 2014.

That being said, the situation for manufacturers improved at the end of 2015. The volume of sales rose a total of 2.4% in the last two months of the year. We can therefore hope that lively U.S. demand and the loonie's depreciation are starting to pay off. However, the slump that started in mid-2014 had prompted many manufacturers to increase their inventories. Under these conditions, it is normal for acceleration in manufacturing sales to initially lead to a reduction in inventory. That's what happened in December, when the volume of sales increased through an equivalent reduction in inventories.

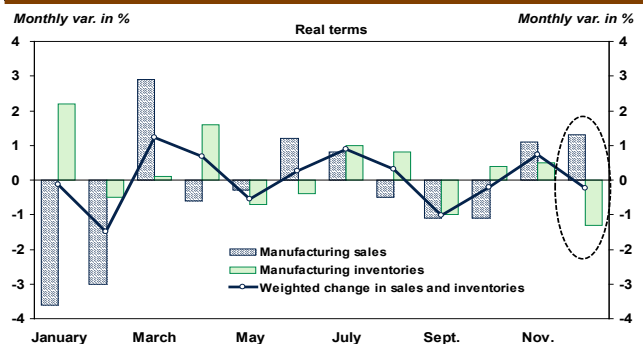
Implications: Despite December's major surge in the volume of sales, the corresponding drop in inventories will wipe out the benefits to economic growth. We can therefore expect manufacturing's contribution to December's real GDP to be almost zero.

The weakness in manufacturing sales in the last few quarters made inventories shoot up



Sources: Statistics Canada and Desjardins, Economic Studies

Will manufacturing make almost no contribution to December's economic growth?



Sources: Statistics Canada and Desjardins, Economic Studies

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